North American Electric Reliability Council

Compliance Enforcement Program

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Background

- **FERC SMD NOPR**
  - Proposes cyber-security standards and mandatory compliance via self-certification
- **Compliance Monitoring**
  - Issue from last conference: How to deal with compliance?
  - Some individuals suggested that FERC should look at NERC's Compliance Enforcement Program

NERC Compliance Enforcement Program

Monitoring, Assessment and Review (CEP)

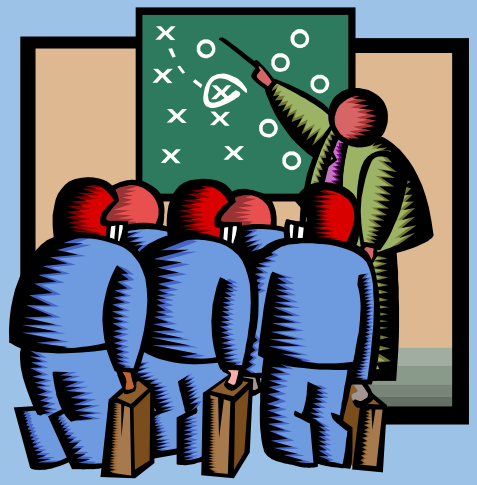
Certification - Entities & Personnel

Investigations & Spot Audits

Enforcement

What Will Be Covered

- Existing NERC Compliance Enforcement Program
  - Basis of the program
  - Design of the program
  - Status of the program
- Potential applicability to cyber security standards
- Questions

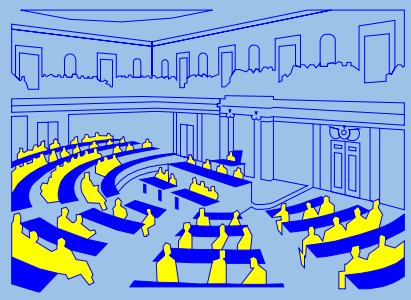


NERC CEP - Basis

- Purpose: Ensure a reliable bulk electric system
- Why: Voluntary compliance inadequate
- Who: Entities responsible for reliability functions
- What: Compliance with NERC reliability standards
- How: Regional Compliance Organizations

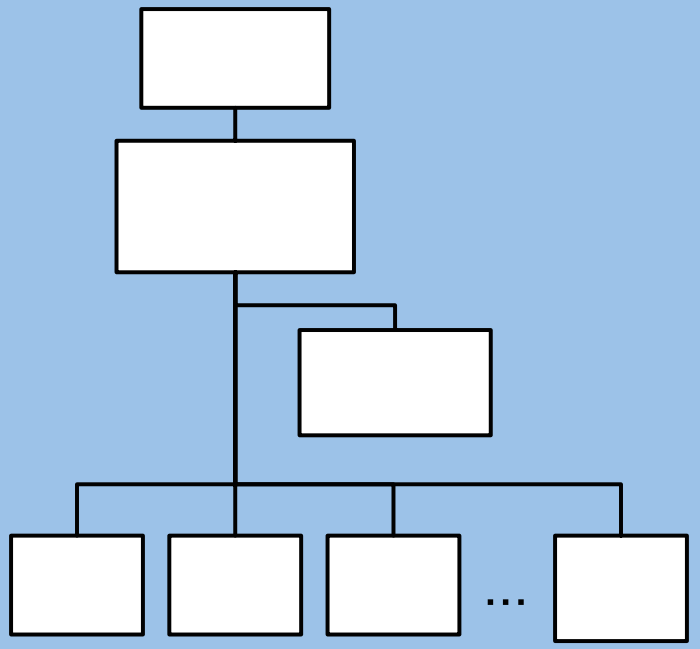
NERC CEP - Basis

- Standards are mandatory on NERC Regions and their members
- CEP created in anticipation of legislation
- CEP monitors compliance
- No penalty mechanism
- Confidentiality of results



NERC CEP - Design

- Model
  - Other industry-based, self-regulatory organizations (Securities industry)
- Region-based with NERC oversight
  - 10 Regional programs
  - Each Region monitors participants
  - NERC monitors Regions



NERC CEP – Design

Who Must Comply Today?

- Any entity responsible for any part of bulk electric system reliability.
  - Historically defined as “control areas”
  - Today - multiple market participants with some reliability responsibility

NERC CEP – Design

Who must comply tomorrow?

- NERC Functional Model
  - Balancing Authority
  - Reliability Authority
  - Interchange Authority
  - Transmission Operator
  - •Purchasing Selling Entity
  - •Merchant
  - •Customer Aggregators
  - •Load Serving Entity
  - Based on Functions to be Performed – not Organizations
  - Independent of Business Structures

NERC CEP – Design

- **Assessment Methods**
  - **Periodic Reporting**
    - Assessed On a Periodic Basis
      - Monthly, Quarterly, etc.
    - Relies on Self-Reporting of Data or Results
  - **Self-Certification**
    - Self Certification Questionnaire Provided
    - Generally Require Corporate Officer Signature
  - **Exception Reporting**
    - Self-Reporting When Violations Occur
    - Reported Per Occurrence or on a Periodic Basis
  - **Triggered Investigations**
    - Triggered by an event, disturbance, or complaint
- **Periodic Spot Audits Used with All Methods**

NERC CEP - Status

- NERC CEP is a fully functional program
- Compliance assessment is working
  - Improvements in compliance identified
- Authority
  - Relies on Regional Agreements
  - No requirement to participate
- Enforcement
  - Notification of non-compliance
  - Penalties through Contract-based Enforcement Agreements

Potential Applicability of NERC CEP to Cyber-Security Standards

Options

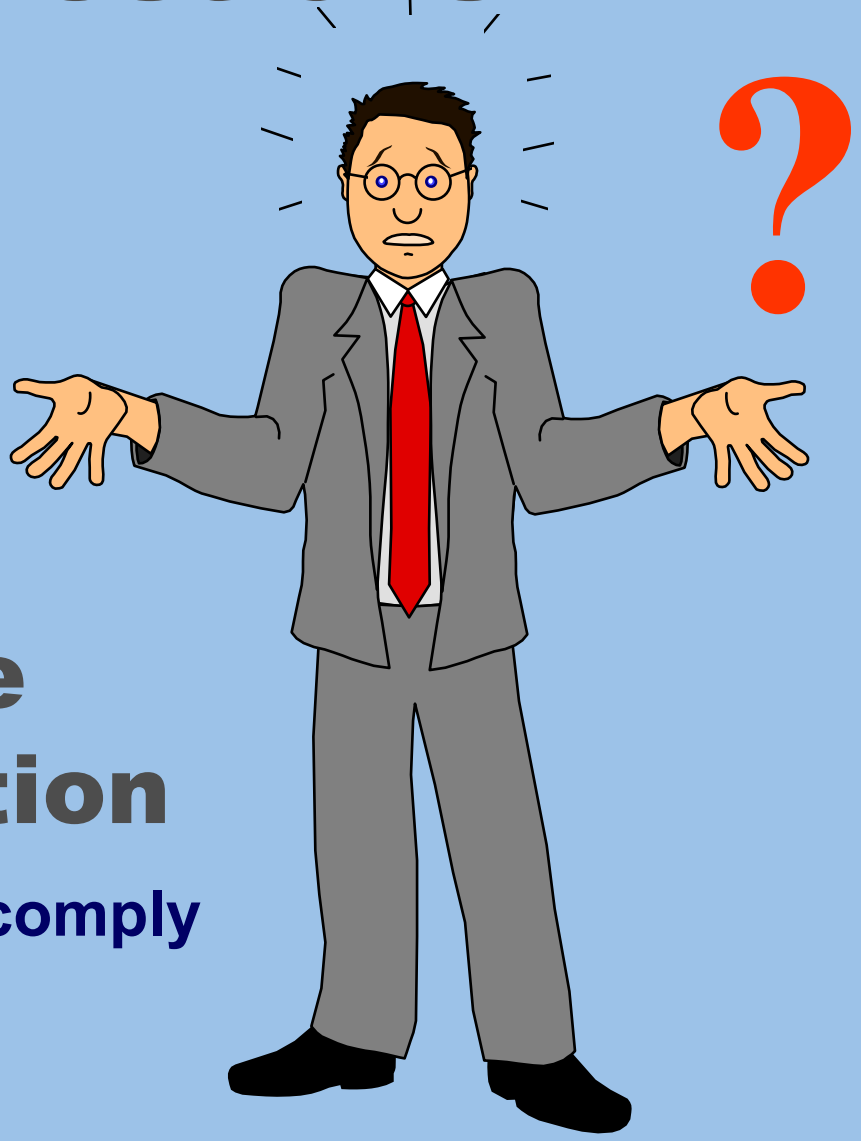
Compliance with FERC Cyber-Security Standards

- **FERC**
  - Requests NERC to monitor compliance with cyber-security standards in NOPR
- **NERC**
  - BOT approves FERC request
  - Self-certification of substantial compliance in 12 months
  - Self-certification of full compliance, backed by audits, in 24 months
    (Auditable measures developed)
  - Applies only to FERC jurisdictional entities

Compliance with NERC Cyber-Security Standards

- NERC initiating Urgent Action SAR
  - Based on work developed with FERC
- BOT Approval of NERC Cyber-Security Standards (3-6 months)
- Include in 2004 CEP as trial use standard
  - Self-certification of compliance with spot audits
  - Applies to all NERC Regional members
- BOT Approval of enhanced NERC cyber-security standards (15-18 months)
- Include in 2005 CEP – approved standard
  - Mandatory compliance with spot audits

Questions



For More Information

www.nerc.com/comply